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SUBJECT: EU ASSOCIATION AGREEMENT DOES LITTLE FOR JORDAN'S
ECONOMY

Classified By: DCM Greg Berry, reasons 1.5 (b,d)

SUMMARY

1. (sbu) Jordan's Association Agreement with the EU entered into force May 1 after a five-year ratification process that had frustrated Jordan and embarrassed EU diplomats here. While both sides have publicly lauded the agreement as a catalyst for investment and trade, privately the GOJ, EU and business community are far less enthusiastic about the agreement's potential for boosting Jordanian economic development. Instead, the most likely effect of the agreement will be a stronger push by the EU to bring Jordan into conformity with European positions on WTO regulatory issues like GMO labeling and technical standards and certifications. End summary.

ASSOCIATION AGREEMENT (FINALLY) LAUNCHED

2. (u) On May 1, an Association Agreement between the EU and Jordan, signed in 1997, entered into force. The agreement, which is part of the broader "Euro-Mediterranean Partnership" that also includes political, security and cultural elements, will eliminate tariffs on most traded goods over a twelve-year phase-in period. Ratification of the agreement was quick on the Jordanian side, but was held up for five years in the EU due to delays and quibbles from a number of EU member parliaments (Belgium alone held up the agreement for roughly a year). The EU mission here plans a low-key launching event, noting with chagrin that they prefer not to highlight the fact that it took so long to finalize the agreement. They added that future Association Agreements, such as the one recently signed by Algeria, will not require ratification by all member state parliaments.

PUBLIC PLAUDITS

3. (u) Jordanian Trade Minister Salah al Bashir welcomed the agreement, expressing hope that it would help attract foreign investment into the kingdom and increase the competitiveness of Jordanian businesses through competition and technology transfer. European Commissioner for External Affairs Chris Patten added his enthusiasm for the agreement in a half-page feature in the English-language Jordan Times on May 9. Patten's comments put the advantages under the agreement in the broader context of the "Euro-Mediterranean Partnership," joining free trade with human rights, migration issues, and security cooperation. Patten's statement envisaged a free trade area where "a fabric could be produced in France or Egypt, dyed in Hungary and made into a dress in Jordan for export to Ireland without paying any duty."

4. (u) The agreement undoubtedly offers some initial benefits to Jordan. It opens to Jordanian goods a large, developed market that is much closer than the US, and hence allows for lower shipping costs. In addition, the agreement immediately opens the European market to select Jordanian agricultural exports, including oranges, grapefruit, and dried vegetables - though none of these is a major Jordanian export. And the promise of a free trade area probably helped spur Jordanian pharmaceutical companies to expand into the European market. Europe is now a major growth market for Jordanian pharmaceuticals, with five different Jordanian firms obtaining European health authority approval to market specific products in the EU in 2001. That said, total Jordanian exports to the EU have fallen in three of the last four years, and in 2001 were less than JD 50 million (\$70 million), or three percent of Jordan's exports. In contrast, Jordanian exports to the US in 2001 were over JD 164 million (\$231 million), up from JD 44.8 million (\$63 million) in 2000.

PRIVATE RESERVATIONS

5. (c) Whatever was said in public, contacts in the Trade Ministry, the EU mission, and the business community all concur that the agreement has some serious shortcomings that will keep it from having a measurable impact on bilateral trade or Jordanian economic development. First, because trade benefits are tied into a broader political and security dialogue, those benefits can be held up at the whim of any EU

member country that has a human rights or immigration dispute with Jordan. They note that while this might not affect Jordan directly, it could affect other Euromed partners like Egypt, which could in turn affect Jordan's ability to secure inputs for products to be sold to EU countries. Our EU mission contacts admitted this could be a stumbling block down the road.

16. (sbu) Second, the rules of origin provisions of the agreement are too restrictive to be of much benefit. Trade Ministry Secretary General Samer Tawil provided an illustrative example: under US textile rules of origin (and hence under the QIZ and FTA), fabric from a third country that is doubly substantially transformed can count as Jordanian for the purposes of country of origin determination. Europe has no such provision for double substantial transformation. Thus any garment made in Jordan for export under the Association Agreement must be made of cloth from Jordan or another Euromed country. Since Jordan has no cotton crop and produces little cloth, it would have to buy from Egypt or France, making production cost-prohibitive. Since Jordan has little in the way of natural resources, it would have to source most of its inputs from Europe, eliminating any comparative advantage it had in labor cost.

17. (c) Third, market access is restricted on those products that Jordan might reasonably have a shot at exporting competitively. In agriculture, most products are subject to "gradual liberalisation" following a "reciprocal approach," according to Patten. The agreement provides for quota restrictions on many agricultural products, with access to the EU market restricted to certain times of the year. According to our EU contacts, a number of EU members have already blocked access for sensitive agricultural products from Mediterranean countries, notably Spain's action to restrict olive oil imports. With Jordan's few key agricultural exports directly competitive with sensitive EU sectors, the opportunities for greater trade are limited.

COMMENT

18. (c) While the trade and investment opportunities created by the Association Agreement are limited, there is likely to be more movement on institution-building issues. As our EU contact noted, this agreement is more about regulatory capacity building than anything else. Patten's statement emphasized "a process of alignment of policies and regulations...with a view to create a single Euro-Mediterranean market, for example in the fields of technical standards, conformity assessments and certifications." In short, we can expect the EU to use this agreement to try to mold partner countries in their own image on issues of trade policy. This could have significant downstream impacts on positions with regard to labeling, GMO's, SPS, and similar issues in the WTO. We will continue to monitor these efforts, and to work closely with the GOJ to ensure it maintains its close partnership with the US on central WTO issues.

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